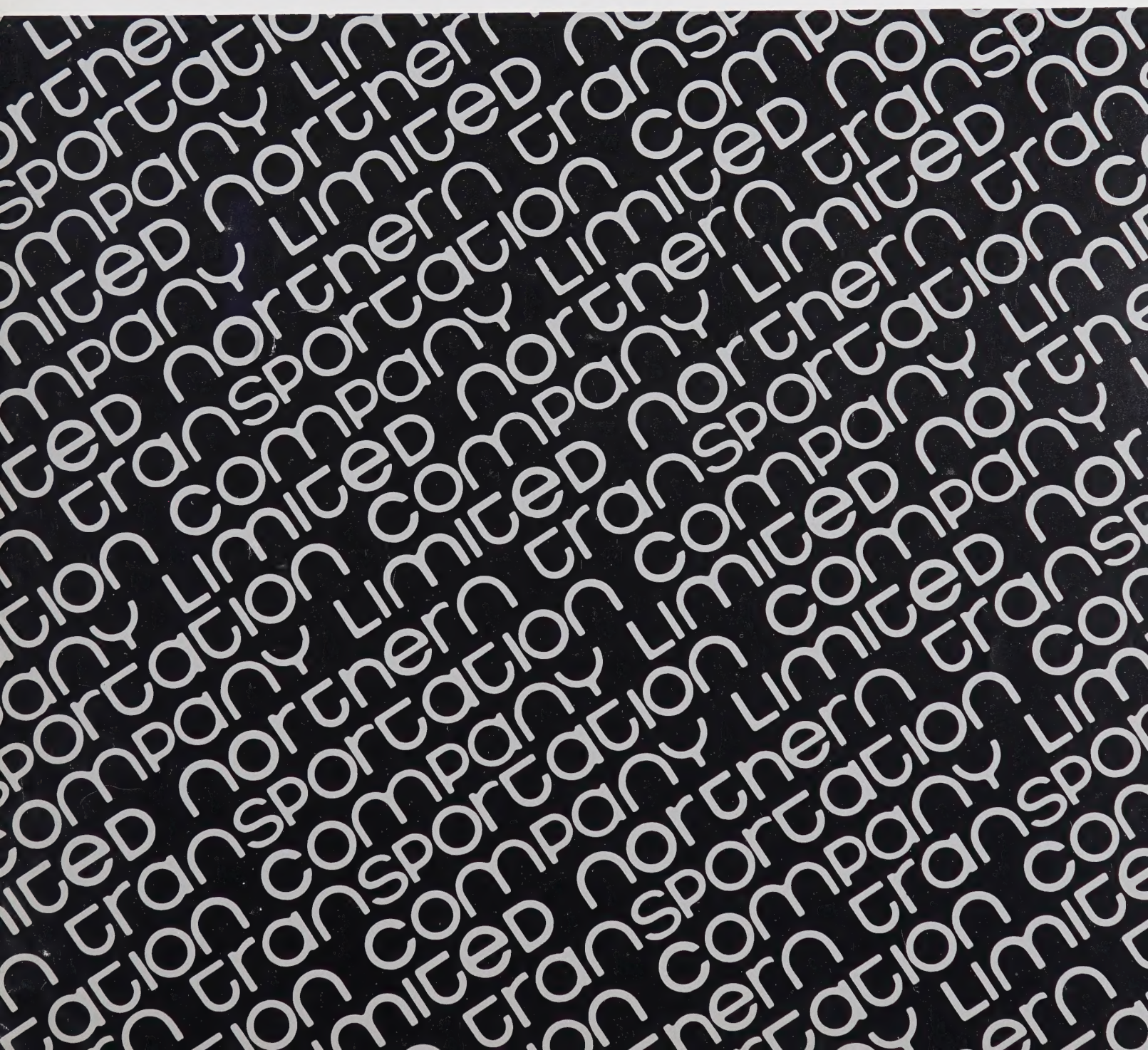




nineteen seventy six annual report





File

Northern Transportation Company Limited

HEAD OFFICE

9945 - 108th Street, Edmonton, Alberta.
T5K 2G9

CALGARY OFFICE

Suite 1470, 540 - 5th Avenue S.W.,
Calgary, Alberta.
T5P 0M2

WINNIPEG OFFICE

Hudson's Bay House
77 Main Street,
Winnipeg, Manitoba,
R3C 2R1

AGENCIES AND TERMINALS

Fort McMurray, Alberta
Bushell, Saskatchewan
Hay River, Northwest Territories
Yellowknife, Northwest Territories
Bear River, Northwest Territories
Norman Wells, Northwest Territories
Inuvik, Northwest Territories
Tuktoyaktuk, Northwest Territories
Churchill, Manitoba

SUBSIDIARY COMPANIES

Grimshaw Trucking and Distributing Ltd.
11510 - 151st Street,
Edmonton, Alberta.
T5M 3N6
Yellowknife Transportation Company Limited
9945 - 108th Street,
Edmonton, Alberta.
T5K 2G9

BANKERS

The Royal Bank of Canada

*La version française de ce rapport peut
être obtenue en s'adressant au
Secrétaire, La Société des Transports
du Nord Limitée
9945, Rue 108e
Edmonton, Alberta
T5K 2G9*

*Telephone: (403) 423-9201
Telex: 037-2480*



BOARD OF DIRECTORS

Julien Beliveau,
President and Chief Executive Officer,
Canadian Arctic Producers Limited

Stanley D. Cameron,
Chairman of the Board

W. Bruce Hunter,
Vice-President Operations of the Company

Arthur Kroeger,
Deputy Minister, Department of
Indian Affairs and Northern Development

Robert D. Laing,
Partner, McKercher, McKercher,
Stack, Korchin & Laing,
Barristers and Solicitors

Peter L.P. MacDonnell, Q.C.
Partner, Milner & Steer,
Barristers and Solicitors

Lionel R. Montpetit,
President of the Company

John H. Parker,
Deputy Commissioner,
Government of the Northwest Territories

Bruce F. Willson,
Past President,
Union Gas Company of Canada Limited

OFFICERS

Stanley D. Cameron,
Chairman of the Board

Lionel R. Montpetit,
President and Chief Executive Officer

W. Bruce Hunter,
Vice-President Operations

David J. Burnett,
Vice-President Finance

William J. McCreary,
Treasurer and Acting Corporate Secretary



BOARD OF DIRECTORS' REPORT

The Honourable Otto Lang
P.C., LL.B., M.P.
Minister of Transport
Transport Canada Building
Ottawa, Canada K1A 0N5

Sir:

On behalf of the Board of Directors and in accordance with section 75(3) of the Financial Administration Act, we have the honor to submit the Annual Report of Northern Transportation Company Limited for the year ended December 31, 1976.

During the year under review a total marine volume of 284,000 tons was handled. This constitutes a decline of 63,000 tons or 18% when compared to the 1975 traffic volume of 347,000 tons. Freight destined for the Mackenzie sector dropped by 40,000 tons but more financially significant was the decrease of 31,000 tons or 84% to the Alaska North Slope. The Company registered a slight increase of 6,000 tons in the Athabasca Area and a modest increase of 2,000 tons in the District of Keewatin in the second year of service.

Despite the drastic decrease in marine tonnage some marked improvement in financial performance was achieved over last year. Revenues from all sources were \$23,301,505, down 11.5% from last year but, as a result of several major

operational cutbacks effected during the year, controllable operating costs (exclusive of depreciation and interest charges) showed an improvement over the previous 12 months of \$2.0 million. However, the net loss for the year was \$5,388,135 when interest on debt of \$4,580,267 was included.

For reasons largely beyond its control, the Company has in the past four years been subjected to a continuous decline in tonnages handled as well as the mounting pressures of higher wages and the rising cost of supplies and services. In the face of these difficult times the Board is pleased to report that management was successful in improving the Company's operations, inasmuch as substantial efficiencies have been effected, the organizational structure has been strengthened and there is a stronger sense of common cause and purpose among employees.

In addition, three new measures were taken this year to ameliorate the Company's financial performance.

The Company undertook a detailed financial analysis of its assets and operating conditions and submitted a refinancing proposal which ultimately resulted in the Government of

Canada converting \$24.9 million of existing debt into common equity capital. This conversion will result in lower interest payments in future years and will ease the burden on the Company's cash flow position.

Marine equipment will henceforth, be depreciated on a "unit of production" basis which involves taking into account the level of fleet utilization in any given year, as well as a normal obsolescence factor established by accepted accounting principles. This method will prove beneficial during years of declining freight volumes when it is necessary to de-activate a portion of the fleet.

A tariff restructuring study was undertaken to determine the feasibility of progressing towards a total cost recovery system related to each commodity in each area of operation. This will require short and long-term rectification of the inherent inequities. Discussions concerning this study are continuing at the time of submission of this report.

Marine Operations

Favourable operating conditions persisted throughout the Athabasca, Mackenzie River, Western Arctic and Keewatin route systems during the majority of the 1976 shipping season. As a result of the auspicious sailing

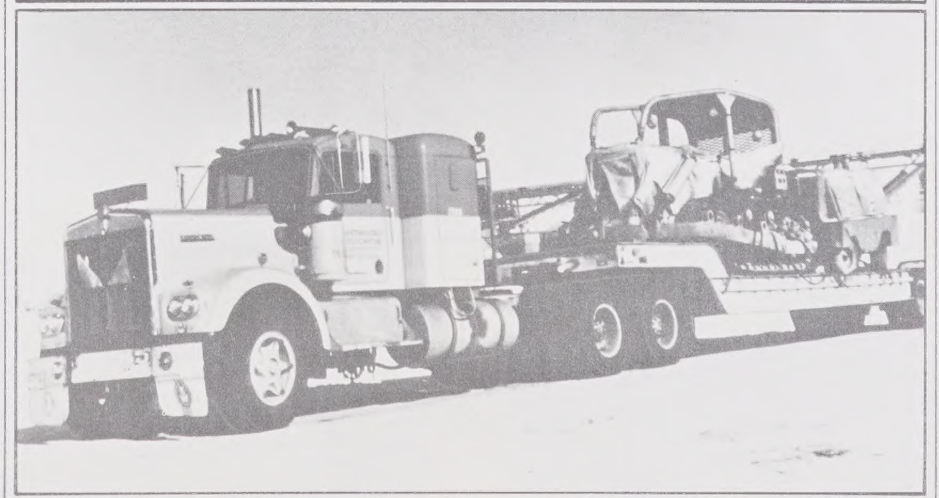
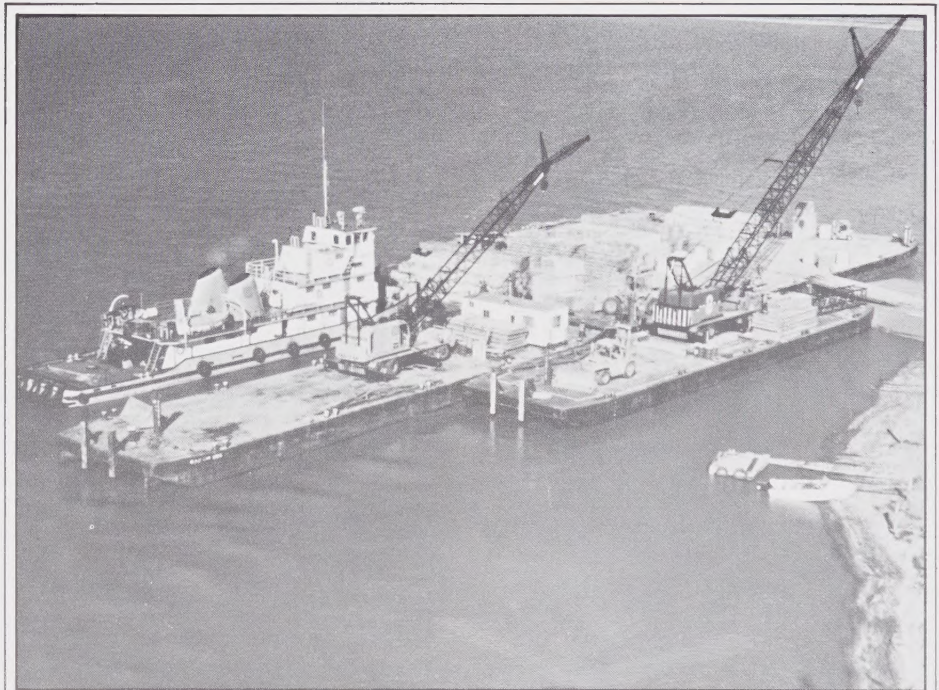


conditions, the fleet was able to deliver its cargoes and effect an earlier return to home port thus affording additional time for shipyard inspections and planned maintenance.

In keeping with the tonnage reductions which were forecast for the 1976 shipping season the Company de-activated 10 vessels, thus substantially reducing the year's marine operating costs. In response to the continuing decline in freight expectations, the Company plans to lay up an additional 2 vessels during the 1977 navigational season.

Trucking Operations

Grimshaw Trucking and Distributing Limited, a wholly-owned subsidiary, is a common carrier operating over 250 units of rolling stock and ten terminals, three of which are located in the Northwest Territories. The Company's service, consisting of inter-community movement of general commodities and contract transportation, complements the water transportation system making intermodal service possible at Hay River, Northwest Territories, and Fort McMurray, Alberta. The year produced a record traffic volume of over 170 million pounds, resulting in a modest profit to the Company.





Air Cushion Vehicles

The Company's air cushion vehicles were once again utilized to support offshore Arctic drilling operations in the Beaufort Sea. The hovercraft were used principally for personnel transport, cargo resupply and safety standby services under contract to a major oil company. The demand for the type of service provided by these vehicles has diminished greatly in the past two years; therefore, it has been decided to suspend the operation until it can be economically sustained.

Personnel

During the past operating season, the work force reached a maximum of 903 persons, of whom 91 were permanent residents of the Northwest Territories. Wages and salaries amounted to \$11,288,229 and the Company contributed \$1,170,311 to pension plans and other group benefits.

Bruce F. Willson and Robert D. Laing were appointed to the Board to replace Alfred B. Caywood who resigned after serving for seventeen years and Murray E. Watts who also resigned after serving for nine years. The Board of Directors wish to extend their appreciation for the support which was rendered





by the retiring directors during their association with the Company.

Wage Agreements

In the early part of the year, negotiations with the Canadian Merchant Service Guild and the Seafarers' International Union of Canada, representing 215 marine employees, resulted in a wage agreement which will remain in effect through 1977.

During the latter part of the year a two year agreement was signed by the Public Service Alliance of Canada which represents 280 non-supervisory shore personnel employed north of the 60th parallel.

Outlook

Northern Transportation is Canada's largest and most experienced northern marine transportation operator. As the owner of a modern fleet and extensive strategic shore installations, the Company is in a unique position to benefit from any substantial economic development in the North. The Company considers there is a good prospect that the future North American demand for assured sources of hydrocarbon energy will, in the medium, if not necessarily the short term, result in substantial exploration and development projects in the Mackenzie Valley corridor and

the Beaufort Sea, which are the Company's prime areas of operation. Northern Transportation is well prepared to cope with such developments and should be capable of realizing the financial benefit that participation in them will afford.

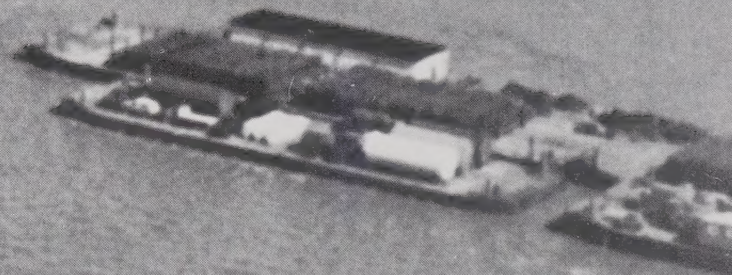
The directors and management wish to express their appreciation to all employees for the effort and contribution made towards the results achieved in, what was in many respects, a difficult financial year.

On behalf of the Board:

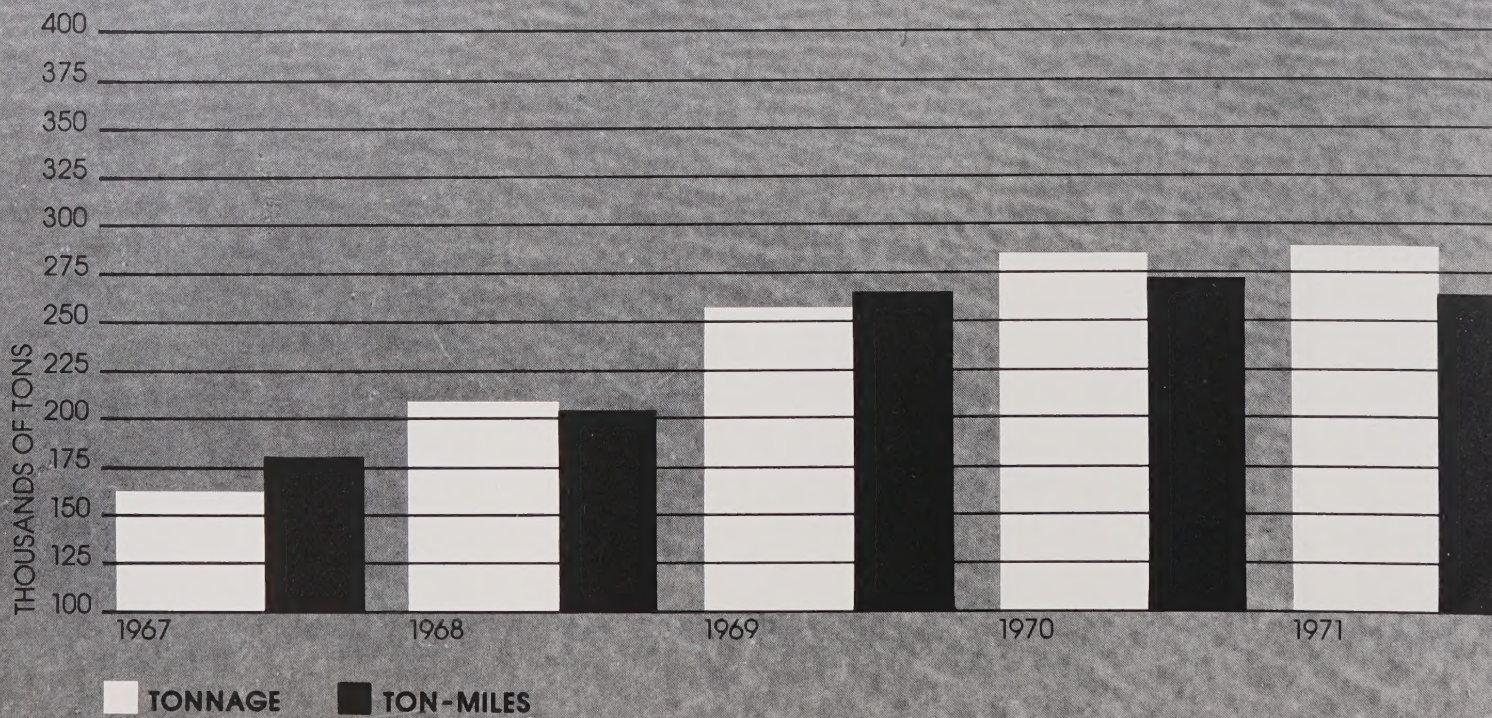
*S.D. Cameron
Chairman of the Board*

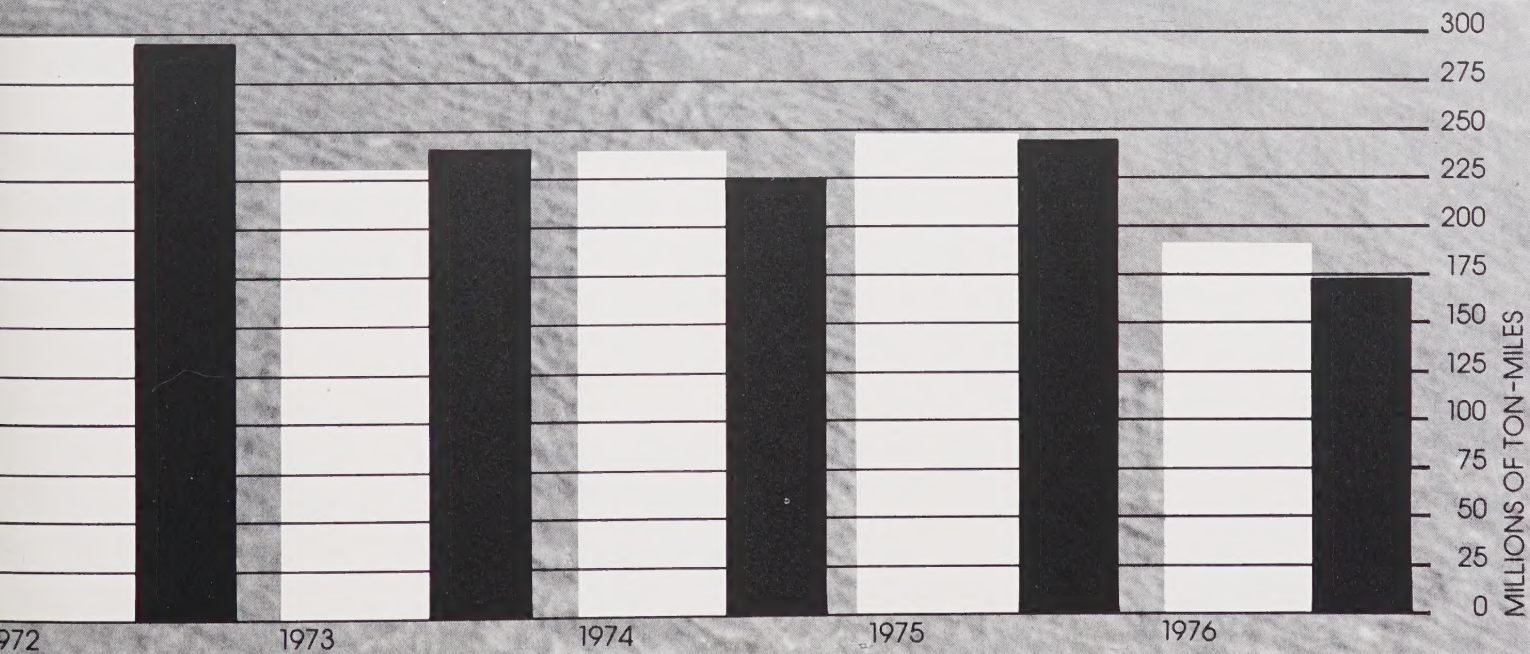
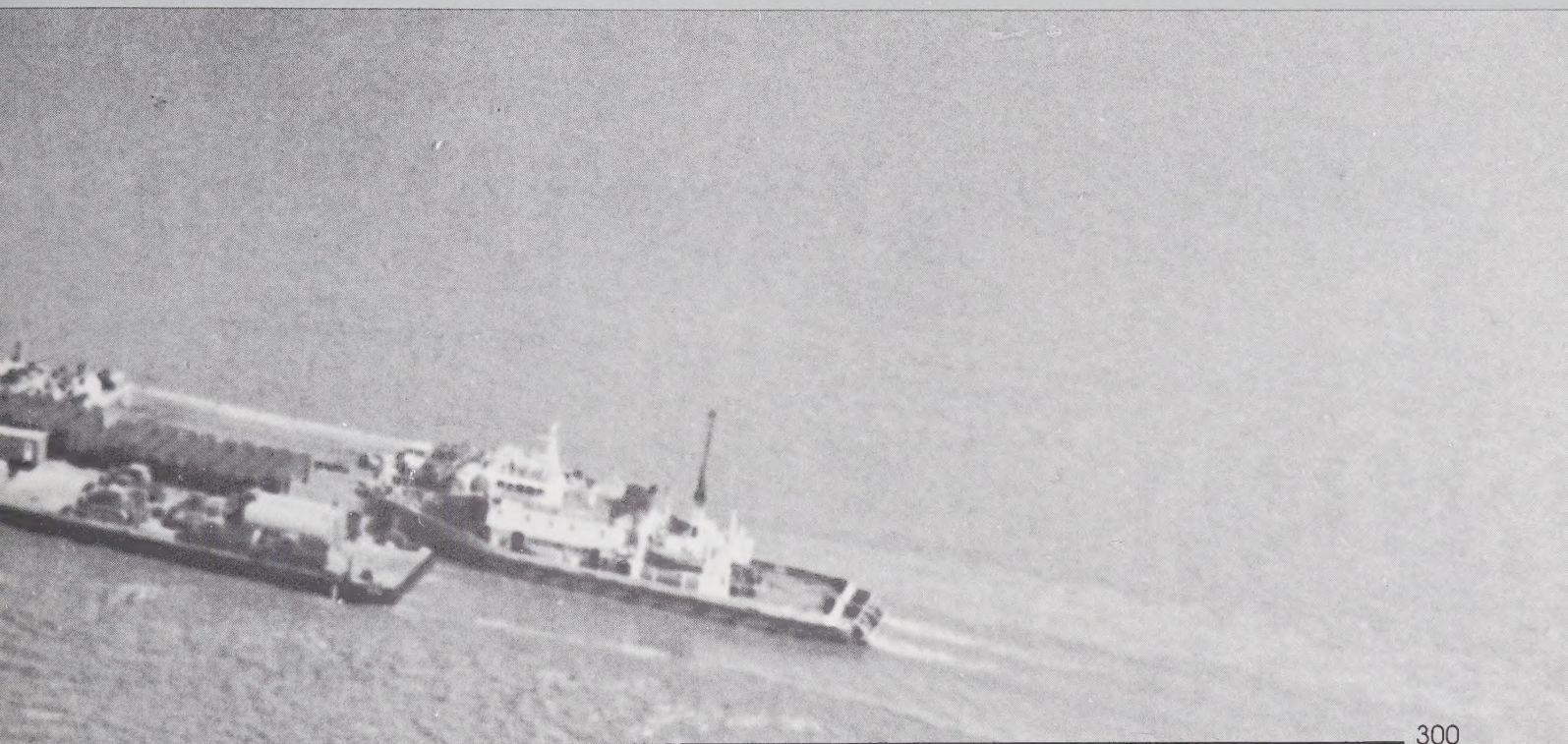
*L.R. Montpetit
President and
Chief Executive Officer
February 28, 1977
Edmonton, Alberta*





marine FREIGHT HANDLED 1967-1976







**Northern
Transportation
Company
Limited**

**and
Subsidiary
Companies**

**Consolidated
Statement
of Income and
Expense
for the Year
ended
December 31, 1976**

	<u>1976</u>	<u>1975</u>
Income		
Freightage revenue	\$19,940,800	\$23,474,408
Parliamentary appropriation (Note 8)	202,042	771,108
Charter, rental and other	3,158,663	2,080,402
	<u>23,301,505</u>	<u>26,325,918</u>
Operating expense		
Cargo haulage	7,322,436	8,623,558
Terminal operations	5,230,365	5,996,987
Maintenance and repairs	5,097,841	4,960,923
Administration and marketing	2,367,028	2,388,399
Depreciation (Note 9)	4,799,733	5,747,340
	<u>24,817,403</u>	<u>27,717,207</u>
Net loss from operations	<u>1,515,898</u>	<u>1,391,289</u>
Other expense and income		
Interest on debt	4,580,267	4,367,837
Gain on disposals of property and equipment	(46,867)	(329,230)
Interest income	(661,163)	(113,270)
	<u>3,872,237</u>	<u>3,925,337</u>
Net loss	<u>\$ 5,388,135</u>	<u>\$ 5,316,626</u>

The accompanying notes are an integral part of the financial statements.



**CONSOLIDATED
STATEMENT
OF DEFICIT
FOR THE YEAR
ENDED
DECEMBER 31, 1976**

	<u>1976</u>	<u>1975</u>
Deficit (retained earnings)		
at beginning of year	\$ 3,660,012	\$ (1,656,614)
Net loss for the year	5,388,135	5,316,626
Transfer from contributed surplus (Note 7)	(1,036,186)	—
Deficit at end of year	<u>\$ 8,011,961</u>	<u>\$ 3,660,012</u>

**CONSOLIDATED
STATEMENT
OF CHANGES IN
FINANCIAL POSITION
FOR THE YEAR
ENDED
DECEMBER 31, 1976**

	<u>1976</u>	<u>1975</u>
Funds provided		
Sale of property and equipment	\$ 204,040	\$ 490,080
Loans from Canada	—	5,500,000
Issue of common shares (Note 6)	24,900,000	—
	<u>25,104,040</u>	<u>5,990,080</u>
Funds applied		
Net Loss	5,388,135	5,316,626
Less: Items not requiring an outlay of funds	5,125,865	5,749,110
Total funds used by (from) operations	262,270	(432,484)
Property and equipment	524,687	3,379,636
Conversion of long-term debt to common shares	7,437,000	—
Other reduction of long-term debt	22,779	6,714,543
Transfer to insurance investment fund	373,000	331,000
	<u>8,619,736</u>	<u>9,992,695</u>
Increase (decrease) in funds	16,484,304	(4,002,615)
Working capital (deficiency)		
at beginning of year	(9,115,321)	(5,112,706)
Working capital (deficiency)		
at end of year	<u>\$ 7,368,983</u>	<u>(\$ 9,115,321)</u>

The accompanying notes are an integral part of the financial statements.



**Northern
Transportation
Company
Limited**

**and
Subsidiary
Companies**

(Incorporated under the
Canada Corporations Act)

**CONSOLIDATED
Balance Sheet
as at
December 31, 1976**

ASSETS

	<u>1976</u>	<u>1975</u>
Current assets		
Cash	\$ 602,717	\$ 449,262
Short-term bank deposits	8,700,000	5,000,000
Accounts receivable	2,073,578	4,233,161
Operating and general supplies	1,791,563	1,897,252
Prepaid expense	127,538	118,550
	<u>13,295,396</u>	<u>11,698,225</u>
Insurance investment fund		
Short term bank deposits	<u>1,004,000</u>	<u>631,000</u>
Property and equipment (Note 2)		
Land, buildings and equipment, at cost	93,290,834	94,147,325
Less: Accumulated depreciation	<u>42,908,288</u>	<u>39,465,003</u>
	<u>50,382,546</u>	<u>54,682,322</u>
Extra-provincial trucking authorities (Note 3)	<u>—</u>	<u>132,442</u>
	<u>\$64,681,942</u>	<u>\$67,143,989</u>

The accompanying notes are an integral part of the financial statements.



LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1976</u>	<u>1975</u>
Current liabilities		
Bank indebtedness (Note 4)	\$ 425,603	\$ 369,004
Accounts payable and accrued liabilities	1,584,022	3,080,329
Accrued interest	3,761,788	5,649,213
Current portion of long-term debt	155,000	11,715,000
	<u>5,926,413</u>	<u>20,813,546</u>
Long-term debt (Note 5)	<u>40,711,490</u>	<u>48,171,269</u>
Provision for insurance	<u>1,004,000</u>	<u>631,000</u>
Shareholders' equity		
Share capital (Note 6)		
Authorized — 400,000 common shares of no par value		
Issued — 250,520 shares fully paid ...	25,052,000	152,000
Contributed surplus (Note 7)	—	1,036,186
Deficit	(8,011,961)	(3,660,012)
	<u>17,040,039</u>	<u>(2,471,826)</u>
	<u>\$64,681,942</u>	<u>\$67,143,989</u>

Approved on behalf of the Board

SD Cameron

DIRECTOR

Juan VEO

DIRECTOR



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1976

1. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its' subsidiaries, Yellowknife Transportation Company Limited and Grimshaw Trucking and Distributing Ltd. both of which are wholly owned. Goodwill arising on acquisition has been written off.

Operating and General Supplies

Operating and general supplies are valued at the lower of cost or estimated replacement cost.

Depreciation

Boats and barges are depreciated on a unit of production basis taking into account their estimated ton-mile productive capacity over a 15 year period with a minimum depreciation charge of four per cent per annum calculated on a 25 year maximum useful life. The cost of other depreciable assets is amortized over their estimated useful lives on a straight-line basis.

Insurance Investment Fund — Provision For Insurance

It is the policy of the company to carry general and third party liability insurance. The company is self-insured for physical loss or damage to real property and equipment except for marine floating equipment based at Churchill, Manitoba, buildings and certain other equipment which are insured in total for \$24,300,000. A fund in respect to self-insured losses is being established by annual charges against income.

2. Property and Equipment

	1976	1975	Basis of Depreciation
Land	\$ 1,511,911	\$ 1,496,761	
Boats and barges	57,755,703	58,379,702	Ton-miles basis
Other equipment	15,981,258	16,332,123	5 to 10 years
Buildings, other structures and site development	18,041,962	17,938,739	10 to 20 years
	93,290,834	94,147,325	
Accumulated depreciation	42,908,288	39,465,003	
	<u>\$50,382,546</u>	<u>\$54,682,322</u>	

3. Extra-Provincial Trucking Authorities

The cost of intangible assets has been written off during the year.

4. Bank Indebtedness

The accounts receivable of a subsidiary company are assigned as collateral security.

5. Long-Term Debt

Loans from Canada totalling \$40,700,000 are repayable in varying annual amounts through 1991 and bear interest at an average weighted rate of 7.68 per cent. A mortgage of

\$166,490 is owing by a subsidiary company. The mortgage bears interest at the prime bank rate plus 1-1/4 per cent. It is secured by a charge against that company's property and is repayable in equal monthly installments through April 1983. Aggregate repayment requirements over the next five years are as follows:

1977	\$155,000
1978	169,000
1979	185,000
1980	201,000
1981	219,000

6. Share Capital — Long-Term Debt

Supplementary letters patent were issued during the year increasing the authorized capital of the company by 350,000 common shares of no par value. Subsequent to this and pursuant to Order-In-Council P.C. 1976-2607, loans and advances from Canada totalling \$24,900,000 were converted into 249,000 fully paid no par value common shares.

7. Contributed Surplus — Deficit

During the year \$1,036,186 was transferred from contributed surplus and applied against the accumulated deficit.

8. Parliamentary Appropriation

Parliament approved payment of \$202,042 to the company to defray the excess of costs incurred over revenue earned from the 1976 Keewatin resupply operation.

9. Change in Accounting Policy

The method of computing depreciation on boats and barges was changed during the year to more closely match the depreciation charge with the level of capacity actually utilized in any given year. Had the previous method of depreciating the cost over 15 years on a straight-line basis been used in 1976, the net loss for the year would have increased by \$1,280,000. The comparative figures have not been restated to reflect this change.

10. Income Taxes

The company has a tax loss carry forward of approximately \$577,000 which can be applied to reduce income otherwise taxable, earned during the next five years. In addition, the company has claimed for income tax purposes certain expenses, principally capital cost allowances on depreciable assets, in amounts lower than those charged against operations. Accordingly, income taxes payable on income of future years may be reduced by claiming allowances for tax purposes in excess of amounts charged against operations. At December 31, 1976, the undepreciated capital cost exceeds the net book value of depreciable assets by approximately \$13,500,000.



11. Comparative Figures

Certain reclassifications have been made in the accounts in 1976 and the 1975 figures presented for comparative purposes have been restated to conform with the revised classifications. Reported earnings are unaffected by these changes.

12. Lease Commitments

The company leases certain equipment, land and real estate under long-term contracts and is committed in 1977 to rental payments of \$544,000; 1978 — \$399,000; 1979 — \$304,000; 1980 — \$283,000 and 1981 — \$101,000.

13. Pension Plan

The company participates in the Eldorado Pension Plan (1959) covering all the regular employees of Northern Transportation Company Limited. Annual pension costs are funded and accounted for at rates confirmed by the consulting actuary pursuant to periodic actuarial valuations. An interim review as of December 31, 1975, on the position of the pension fund indicates an estimated deficiency attributable to Northern Transportation Company Limited of \$1,100,000. Annual payments over the next five years of approximately \$185,000 would be required to fund a liability of this amount. An actuarial report as of December 31, 1976, is currently in progress and the results thereof will determine the actual contributions required from the company to meet the deficiency, pursuant to the trust deed and the Pension Benefits Standards Act.

14. Remuneration of Directors and Officers

	1976		1975	
	Number	Amount	Number	Amount
Northern Transportation Company Limited				
As directors	11	\$ 8,500	11	\$ 8,750
As officers	5	165,500	8	274,138
Officers who also served as directors	3		3	
Grimshaw Trucking and Distributing Ltd.				
As directors	5	1,500	6	2,000
As officers	3	30,000	5	30,000
Officers who also served as directors	2		2	

The number and remuneration of directors and officers reported above includes all persons who acted in either capacity at any time during the year.

15. Federal Anti-Inflation Legislation

The company is subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices, dividends and compensation. Management is of the opinion that the company has complied with the intent of the Act and Regulations and that no significant liability will arise as a result of the legislation.

AUDITOR GENERAL'S REPORT

Ottawa, Ontario,
K1A 0G6.

February 18, 1977

The Honourable Otto Lang, P.C., M.P.,
Minister of Transport,
Ottawa, Ontario,
K1A 0G6.

Dear Mr. Lang,

I have examined the consolidated balance sheet of Northern Transportation Company Limited as at December 31, 1976 and the consolidated statements of income and expense, deficit and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements give a true and fair view of the financial position of the Company as at December 31, 1976, and the results of its operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in depreciation policy referred to in Note 9 to the financial statements, on a basis consistent with that of the preceding year.

I further report that, in my opinion, proper books of account have been kept by the Company, the financial statements are in agreement therewith and the transactions that have come under my notice have been within its statutory powers.

Yours sincerely,
J.J. Macdonell
Auditor General of Canada.

